Your Branches

England

Newcastle upon Tyne

3 Hood Street, NE1 6LZ Tel: **(0191) 232 0505**
136 Northumberland Street, NE1 7DQ Tel: **(0191) 261 4940**
22 Denton Park Centre, NE5 2RA Tel: **(0191) 267 5038**
240 Chillingham Road, NE6 5LP Tel: **(0191) 276 0330**
105/107 High Street, Gosforth, NE3 1HA Tel: **(0191) 285 5965**

North East

ALNWICK
28 Bondgate Within, NE66 1TD Tel: **(01665) 603 344**

ASHINGTON
10 Station Road, NE63 9UJ Tel: **(01670) 815 919**

BERWICK UPON TWEED
12 Hide Hill, TD15 1AB Tel: **(01289) 306 417**

CHESTER-LE-STREET
45 Front Street, DH3 3BH Tel: **(0191) 388 5266**

CONSETT
19/21 Middle Street, DH8 5QP Tel: **(01207) 502 636**

CRAMLINGTON
34/35 Craster Court, NE23 6UT Tel: **(01670) 735 813**

DARLINGTON
87/88 Skinnergate, DL3 7LX Tel: **(01325) 383 656**

DURHAM
25 Elvet Bridge, DH1 3AA Tel: **(0191) 384 3182**

GATESHEAD
221/223 High Street, NE8 1AS Tel: **(0191) 477 2547**

HARTLEPOOL
133/135 York Road, TS26 9DR Tel: **(01429) 233 014**

HEXHAM
3 Beaumont Street, NE46 3LZ Tel: **(01434) 605 106**

LOW FELL
574 Durham Road, NE9 6HX Tel: **(0191) 487 2893**

MIDDLESBROUGH
38 Linthorpe Road, TS1 1RD Tel: **(01642) 243 617**

MORPETH
14 Market Place, NE61 1HG Tel: **(01670) 514 702**

NORTH SHIELDS
76 Bedford Street, NE29 0LD Tel: **(0191) 259 5286**

PONTELAND
23 Broadway, Darras Hall, NE20 9PW Tel: **(01661) 821 828**

SOUTH SHIELDS
67 Fowler Street, NE33 1NS Tel: **(0191) 454 0407**

STOKESLEY
19 High Street, TS9 5AD Tel: **(01642) 711 742**

SUNDERLAND
14 Waterloo Place, SR1 3HT Tel: **(0191) 565 0464**

WALLSEND
12/14 High Street East, NE28 8PQ Tel: **(0191) 262 3496**

WHICKHAM
28 Front Street, NE16 4DT Tel: **(0191) 488 1766**

WHITLEY BAY
78/84 Park View, NE26 2TH Tel: **(0191) 252 0642**

North West

CARLISLE
2/4 English Street, CA3 8HX Tel: **(01228) 524 518**

PENRITH
12 Market Square, CA11 7BX Tel: **(01768) 862 888**

Scotland

DUMFRIES
2/6 Queensberry Square, DG1 1BL Tel: **(01387) 253 815**

Overseas

Gibraltar

197-201 Main Street Tel: **(00 350) 200 41143**

www.newcastle.co.uk

Principal Office: Portland House, New Bridge Street, Newcastle upon Tyne, NE1 8AL
Telephone: (0191) 244 2000.

Summary Financial Statement 2012

Celebrating 150 years
Local knowledge. Mutual understanding.

Newcastle
Building Society

Jim Willens - Chief Executive

As expected, 2012 was a year where further challenges emerged and it is against this backdrop that I am pleased to report the Society continued to deliver against its strategy.

In 2010, we changed our strategic focus to return the Society to a traditional building society model with a diversified income stream via our Solutions business; built on core building society competencies. At the heart of this strategy are you, our members, our staff and the communities within which we operate, all while ensuring we provide a good range of products and excellent service, underpinned by the Society's values.

The Society continues to show steady year-on-year positive trends in all its Corporate Key Performance Indicators, which are fully aligned with the Society's strategy. From a financial perspective, profitability, capital and liquidity ratios continue to strengthen and our key non-financial measures; the satisfaction of both our members and staff, increased. We exceeded our targets for business simplification and delivered on schedule on key regulatory projects. Overall, we have had a very positive year of progress.

Members

Thanks to the launch of products, such as our hugely popular charity linked accounts – the Sir Bobby Robson Foundation ISA and Saver – we have enjoyed great support from both new and existing members. This helped us open 40,000 new savings accounts for members in 2012.

The success of our strategy in focusing on core building society activities has enabled us to return to higher volumes of residential lending to individuals. The Society supported first time buyers (FTBs) with the launch of a range of competitive 90-95% LTV products, which were well received. Our lending to FTBs increased by more than 210% in 2012 in comparison to 2011 and helped support a group that is key to the success of the wider housing market. Our total gross mortgage lending in 2012 was double that of 2011 and we expect it to be double again in 2013. This all flows from our strategy of simplification and our focus on being a traditional building society.

Following the devastating floods the North East of England experienced in July, our Alnwick branch was badly damaged. We took the opportunity to reassess the needs of the branch and have redeveloped it to become one of the beacons for our new style of branches within the network.

Our annual customer satisfaction survey results improved from overall satisfaction of 90% in 2011 to 92% in 2012. This has in part been due to an ongoing desire to develop not only our staff but also our proposition and processes ensuring that we take all feedback from customers, whether positive or negative, and use it constructively.

Staff Engagement

In 2010, we formed a staff representative group, which has helped us define many of the positive staff-related changes that have taken place within our organisation, including the launch of our internal values, regular business update sessions with senior management as well as the launch of our staff recognition awards. We have just completed our third annual staff survey and again the results are very positive with the Staff Satisfaction Index rising to 85%.

We launched the Society's values to staff this year, which were also developed by our staff representative group. The process of agreeing values was comprehensive, with both challenge and support, which in turn has helped develop a framework that supports both our employee and member strategies going forward.

We introduced our new staff recognition scheme in 2012; S.T.A.R. means Staff To Achieve Recognition and aims to celebrate work well done.

We also launched our graduate training scheme where we took on local graduates in a number of key business areas. Couple this with the fact we have entered the second year of our undergraduate student placement programme and we're quite excited about the support we're providing to the next generation of finance-sector employees.

In April, we were also able to deliver an annual pay review and in December we paid a staff corporate bonus equivalent to 2.5% of staff's salaries.

Communities

It has been a fantastic year for working with local communities with the launch of our "Cornerstone of the Community" initiative within our branch network. Through activities including volunteering, charity fundraising and local hero awards, we were able to support local charities in need and reward unsung heroes for the tireless work and support they give.

We also launched a financial education project called the Boardroom Challenge. This was a six-week long curriculum based learning package that taught core numeracy and literacy skills to pupils. The project involved more than 500 nine and ten-year-olds.

As well as this, we have continued to provide support to our corporate Charity of the Year. For 2011/2012 this was Macmillan Cancer Support for whom we raised a record £35k. For 2012/2013, our Charity of the Year is Help for Heroes.

Financial Performance

Profit before tax improved from £0.1m to £1.5m reflecting increased mortgage lending activity, higher income from financial advice services and a strong performance from the Solutions business. Our financial performance at the operating profit level (before provisions and FSCS levy) improved by 13% from £9.2m to £10.4m. This was a pleasing performance as operating profit for 2011 included £1.4m in relation to the Prepaid Cards business and the 2012 figure is adversely affected by a £1m charge on the revaluation of the investment property portfolio. Adjusting for these factors gives a year-on-year improvement in operating profit of 46%. Cost to income ratio also improved from 80% to 77%.

The Society's capital ratios continued to improve with the Solvency Ratio improving from 15% to 16.4% and Core Tier 1 ratio, the key measure of focus under new proposed capital regulations, improving from 10% to 10.7%. Liquidity was also strong at 30.2% although this high level was in part due to the retention of funds from the wind down of legacy mortgage portfolios in 2012 which will fund increased prime residential mortgage lending activity in 2013.

In 2010, the Society adopted a more pro-active stance in winding down higher risk or lower margin legacy mortgage portfolios which did not fit the traditional building society model. In 2012, this approach continued to be successful with a reduction of £180m in legacy portfolios, including £75m in commercial investment lending and £68m in loans to housing associations. Since the start of 2010, we have reduced legacy portfolios by £430m, with the largest element of this reduction relating to commercial investment loans, falling by £241m or 44%.

Our Solutions business, which provides the Society with non-interest margin income, continues to go from strength-to-strength. There was 22% growth in savings balances under management and the launch of a new savings management contract in May 2012. Solutions operating profit, before provisions and gain from the sale of the Prepaid Cards division (PPC) in 2011, increased from £6.2m to £6.7m an increase of 8%, with the underlying increase being much higher at 40%, after adjusting for the impact of the sale of PPC.

The cost of failed banks is borne by financial institutions via a levy from the FSCS. This levy has increased by 50% from £1.4m to £2.1m reflecting that in addition to paying the interest cost of loans to failed institutions, the Society will also need to take a share of any expected capital shortfall on repayment of the loans. This is a large cost to our organisation.

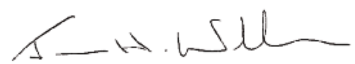
Summary

The Society continued to make excellent progress in 2012 towards achieving its long-term objectives. While there is some evidence the UK economy is moving towards recovery it may take years to achieve the long-term growth rates we have seen in the past. We see the next three years as an opportunity to show that building societies can continue to thrive, with an increased focus on mortgage lending and good long-term value savings products, a commitment to our financial advice service and our pursuit of excellent customer service for you, our members.

In 2013 we celebrate the Society's 150th anniversary, that's 150 years of providing mortgages and savings products, supported by a range of services, to our members. It goes without saying that we would not be here without our members so thank you to you all - we look forward to another 150 years.

I would also like to take this opportunity to thank the staff and Executive team, who have shown exceptional commitment and enthusiasm both this year and over the last three years.

Finally, on behalf of the Board I wish to place on record our sincere thanks to our Chairman, David Holborn, who has served the Society with distinction for the past 10 years, the last two as Chairman. We will miss his wise counsel and guidance. Following careful and timely planning the Society has secured an equally impressive replacement in Phil Moorhouse under whose guidance we look forward to building further on successes achieved to date.This new appointment will commence after our AGM on 24th April.



Jim Willens
Chief Executive
27 February 2013

Helping our Communities and Members

Cornerstone Campaign celebrates communities

We launched our Cornerstone of the Community initiative in 2012 which aims to 'breakout' from our branches, demonstrate our mutual values and support our local communities more closely than ever before.

The focus was on giving back to the community while celebrating local heroes (our 'cornerstones').

Charity Teddy Bear's Picnic at our South Shields branch

Andrea Thompson, founder of TOMA fund, with Francesco Di Pietro; manager of West Denton branch

There were five key aspects to Cornerstone;

- an **education programme** for schools called the 'Boardroom Challenge';
- a **Charity of the Year** for each branch to raise money for local charities;
- to develop a free in-branch **community area** for organisations to use free of charge;
- a branch **volunteer programme**; and
- and an **awards scheme** to reward charity stars in the local area at a grass roots level. We're delighted to be continuing this initiative this year but with even more branches!

Advice for our Members

The Retail Distribution Review (RDR) is something that many of you may not be aware of. But following its introduction on 1st January 2013, it has introduced significant changes to the way financial advice is provided to customers.

At the Newcastle, we have been introducing customers to our subsidiary Newcastle Financial Services Limited (NFSL) for many years and feedback tells us this service is greatly valued by members.

With many banks deciding to stop offering this type of advice to the mass market, the Society believes there will be an advice gap for many people. We are therefore delighted to be able to continue to provide this service.

For more information on the Money Manager service which can provide investment advice and explain the changes introduced by the RDR, please call 0845 600 4330.

Newcastle Building Society introduces to Newcastle Financial Services Limited (NFSL). Newcastle Financial Services is a trade name of Newcastle Financial Services Limited which is an appointed representative of Openwork Limited, which is authorised and regulated by the Financial Services Authority.

Support for the UK's First Time Buyers

Throughout 2012, the Society has supported the first time buyer (FTB) market with the launch of competitive 95% LTV mortgage products.

Our lending to FTBs increased by more than 210% in 2012 in comparison to 2011 and helped support a group that is key to the success of the wider housing market. The range of products for FTBs included five year and two year fixed rate deals and incentive products, all of which are very popular.

Ian Welsh, Product Development and Propositions Manager, said: ***"It is vital we banish the myth that FTBs need a 20% deposit to realise their ambition to become a homeowner as there are lots of great products that require smaller deposits available in the marketplace.***

"Equally, we are keen the sector instills an understanding that saving needs to underpin affordable homeownership, which is why we launched our Big Home Saver product last year, to support and encourage deposit saving."

The Big Home Saver pays a competitive variable rate of 2.98% Gross (3.00% AER), which includes a 1% bonus for regular savers who make at least one deposit and no withdrawals in each month. Importantly, after saving for a deposit the account can also pay up to a £1,000 cash reward upon completion of a house purchase mortgage with the Newcastle.

For more information on our products please visit www.newcastle.co.uk or pop into one of our 30 UK-based branches. Alternatively customers can call our contact centre on 0845 600 4367 (mortgages) and 0845 600 4368 (investments).

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Top Tips for First Time Buyers!

- **Plan** - the earlier you plan to buy your house the greater the opportunity you have to research the areas you want to live in, and save!
- **Help and advice** – as well as asking friends and family, also seek professional advice.
- **Affordability** – it is important you live within your means.
- **Budget** – think about all the ancillary costs, such as utilities, council tax and transport costs, this will provide a good idea of the spare cash you may have.
- **Save, save and save** – moving home can be expensive, so by saving for as long, and as much, as possible it will give you more flexibility to do it how you want.

Helping Sir Bobby Robson's Charity

The Society, in Spring 2012, launched two charity-linked accounts and in doing so has so far raised more than £150,000 for the Sir Bobby Robson Foundation.

The Society pledged its support to the Foundation in late spring by donating an additional percentage of interest for every £1 invested. The Foundation was the perfect match for us as a mutual especially with both organisations being based in the North East.

It was originally hoped to raise around £50,000 in the first 12 months. However, the product proved so popular with new and existing members that the charity is set to benefit by much more than expected.

Lady Elsie Robson and the Society's Chief Executive, Jim Willens, at the launch of the Sir Bobby Robson Foundation Account

Lady Elsie, Sir Bobby's widow, said: ***"I'm extremely grateful to the Society and its members for their wonderful support.***

"We share the Newcastle's hopes that this will be a long-standing partnership and one which can help the Foundation continue its important work for a long time to come.

"I'm always especially touched to receive support from local people and organisations and it was a great pleasure showing Jim around the Sir Bobby Robson Centre and introducing him to the wonderful medical team who staff it."

For more information about these products, please visit:
www.newcastle.co.uk/savings/sir-bobby-robson

Don't miss out!

We have to remind all our members from time to time that they can choose not to receive marketing mailings, emails or phone calls from the Society. To find out whether you are opted in or out, or to change your preferences, just ask next time you're in your branch or call our Newcastle-based Customer Contact Centre on **0845 7344 345*** and our staff will be happy to help. Remember though, if you choose not to receive marketing messages from the Society, you may miss out when we launch new products and services.

ISA Customers

We want to make you aware of some important information from HM Revenue & Customs (HMRC) regarding how you can invest your ISA allowance. HMRC states that if you already have a cash ISA in place, into which you invested during the current tax year (2012-13) and you pay into this during the next tax year (2013-14), you are not allowed to open another cash ISA during 2013-14.

At the Newcastle, ISA investors don't have to be tied to one, single cash ISA product within the tax year. Our unique service called **MaximISA™**** allows you to split your annual cash ISA allowance between various **Newcastle cash ISA** products and still get the tax-free benefits. This is because we now 'bundle' all of your various ISAs under one unique reference number for HMRC reporting purposes.

To find out more about the **MaximISA™** service, simply call us on **0845 7344 345***, pop into any of our branches, or visit **www.newcastle.co.uk**

Important Information about Compensation Arrangements

Deposits with the Society are covered by the Financial Services Compensation Scheme (FSCS). The FSCS can pay compensation to depositors if a building society is unable to meet its financial obligations. Most depositors, including most individuals and small businesses, are covered by the scheme.

In respect of deposits, an eligible depositor is entitled to claim up to £85,000. For joint accounts each account holder is treated as having a claim in respect of their share so, for a joint account held by two eligible depositors, the maximum amount that could be claimed would be £85,000 each (making a total of £170,000).

The £85,000 limit relates to the **combined** amount in all the eligible depositor's accounts with the building society, including their share of any joint account, and not to each separate account.

For further information about the scheme, please call us on **0845 7344 345*** or ask a member of staff from your local branch.

Staying safe online

At the Newcastle, we take security very seriously but there are a few things you can do to help keep your online accounts safe:

- Don't write down your online log in details;
- Make sure you have up-to-date anti-virus and anti-spyware software installed on your computer;
- Take care when opening email attachments;
- Ensure you always log off properly when you've finished transacting online; and
- We will never ask you to send personal details in an email; do not respond to suspicious emails asking for such information.

Want to be kept up to date?

Why not sign up to receive our regular e-Newsletter? The e-Newsletter is an email service that gives you regular updates, news and advice that we think could be useful. It's very straightforward to register, simply visit www.newcastle.co.uk/newsletter and sign up.

Why not also join our Priority Register?

The Priority Register is an email service that keeps you up-to-date with our new products and services – just as they're launched, so you don't miss out. It's easy to join, simply ask in branch or telephone our Newcastle-based contact centre on **0845 7344 345***, provide your email address and that's it!

We always try to keep the marketing messages to a minimum – only sending you the information on products that we really think could be of interest to you.

*Lines open Monday to Friday, 8am to 6pm (excluding Bank holidays) ****MaximISA™** is a trade mark of Newcastle Building Society. All rights reserved.

Notice of AGM

Notice is given that the AGM of members of Newcastle Building Society will be held on Wednesday 24 April 2013 in the Bamburgh Suite, Newcastle United Football Club, Newcastle upon Tyne NE1 4ST at 1.45pm prompt, for the following purposes:

Ordinary Resolutions

1. To receive the Annual Report & Accounts
2. To re-appoint PricewaterhouseCoopers LLP as auditors
3. To approve the Report on Directors' Remuneration

Re-election of Directors

4.
   - **i)** To re-elect David John Buffham
   - **ii)** To re-elect Ronald Joseph McCormick
   - **iii)** To re-elect Richard Derrick Mayland
   - **iv)** To re-elect Philip James Moorhouse
   - **v)** To re-elect John Morris
   - **vi)** To re-elect Angela May Russell
   - **vii)** To re-elect Gillian Tiplady
   - **viii)** To re-elect Catherine Rosemary Reid Vine-Lott
   - **ix)** To re-elect James Henry Willens

By Order of the Board

Ian Good

Ian Good
Group Secretary
27 February 2013

Notes

1. These notes form part of the Notice of Meeting.
2. Under the Society's Rules, a member entitled to attend the Meeting and vote may appoint a proxy to attend and vote on his or her behalf. You may appoint the Chairman of the Meeting or anyone else as your proxy and your proxy does not have to be a member of the Society. Your proxy may vote for you at the Meeting but only on a poll.
3. You may instruct your proxy how to vote at the Meeting. Please read the instructions on the Voting Form.

How to Vote

Online

1. You can vote online at: **www.newcastle.co.uk/agm**
2. You must vote online by **5pm Friday 19 April 2013.** 20p will be donated to our Charity of the Year, Help for Heroes, for every online vote received.

Freepost

1. Complete, sign and detach the Voting Form.
2. Post it in the pre-paid envelope provided. No stamp is required.

   Your form should be received by the Society no later than **5pm Friday 19 April 2013.**

   Please do not include passbooks or cheques in the pre-paid envelope.

At the AGM

1. You can vote in person at the AGM on **Wednesday 24 April 2013**.
2. Bring your Voting Form, or other evidence of membership, to the Meeting.

Agenda:

- Registration 1:00pm.
- AGM 1:45pm prompt.
- Refreshments served upon registration and after conclusion of the Meeting.

AGM Business

1. The Annual Report and Accounts for the year ended 31 December 2012 are required to be received formally by members at the AGM.
2. It is a requirement that the auditors are appointed by the members each year. The Board is proposing the re-appointment of PricewaterhouseCoopers LLP as auditors.
3. Although it is not a legal requirement, in line with current best practice, members are being asked to approve the Report on Directors' Remuneration for the year ended 31 December 2012.
4. In accordance with best practice on corporate governance, all of the Society's Directors are standing for re-election at the AGM, with the exception of Mr FD Holborn who is standing down as a Director and Chairman at the end of the AGM. Details of all the Directors are set out on pages 10 and 11.

The Board recommends that you vote in favour of all the resolutions and for the re-election of the Directors.

Being a Member

What does being a Member actually mean?

As a member of a building society, you are more than just a customer; you have certain rights to receive information and to voice your opinions on the way your building society is run. Building societies are unlike banks, which are public limited companies (plcs) owned by, and run for, their shareholders. As a mutual organisation, a building society does not have any other set of owners, separate from its members, to influence or direct its business.

As a member what can I expect to receive?

Members are entitled to receive a range of information, including:

- A copy of the society's rules and memorandum (on request);
- A copy of the annual summary financial statement on the society's business (which is sent to qualifying members before the AGM and also when an account is first opened);
- A copy of the detailed Annual Report and Accounts (on request); and
- Notice of the AGM.

Does every member have the same rights?

Most people taking out a mortgage or opening a savings account with a building society become members and therefore have rights to receive information as mentioned above. However, some building society investors have deposit accounts (although this is increasingly rare); depositors are not members and have no member rights. Also, customers of a subsidiary of a building society are not members of the Society.

Additionally, saving members with less than £100 in their account, borrowing members with a mortgage of less than £100, and members under the age of 18 have restricted rights, allowing them only to receive information on request. They cannot vote, nominate directors or speak at AGMs, for example.

Joint Account

In many cases, savers and borrowers have joint accounts; for instance, a husband and wife may hold one account between them. In such cases, only the first-named account holder is entitled to all of the members' rights; the second, or subsequent, named holders are entitled to fewer rights - mainly regarding obtaining information. It is therefore important that careful consideration is given to the order of names on a joint account.

Annual General Meeting

How to get there

By Road

From the A1 North or South take the A184 slip road. Follow signs for the A189 to cross the Redheugh Bridge, leading onto St. James' Boulevard. Travel all the way to the end of the Boulevard.

Turn left at the traffic lights on to Barrack Road (the Stadium is on the right) and over the next set of traffic lights move into the right-hand lane. Turn right at the next set of traffic lights into the football club.

By Rail

Newcastle Central Railway Station is only five minutes from the football club by car or taxi. The Tyne & Wear metro station system provides a link direct to the football club. For details of the rail service please call National Rail on 08457 484 950.

For details of the Tyne & Wear Metro System call Nexus on 0191 203 3333.

Local Travel Information

If you would like to find out more about local transport information you can also contact Traveline on 0871 200 2233.

Venue Details

Upon arrival, guests travelling by road will be advised by an attendant where to park. The attendant will also direct guests to the relevant reception area.

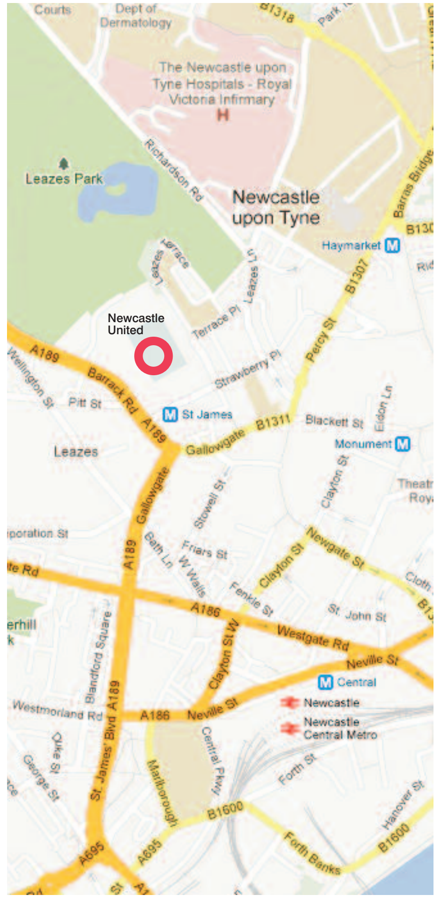
There are a small number of free on-site car parking spaces for members attending our AGM.

The free car parking spaces for our members are on level 1 of the multi-storey car park. The car parking areas can be accessed from Barrack Road. Please follow sign for 'Conference and Banqueting Car Parking'.

In the event of level 1 of the multi-storey car park being full, guests may use the nearby low-level two storey car park. The cost there is 60p per hour from 8am - 10pm.

Wheelchair access is available.

Some limited disabled parking spaces are also available and can be booked in advance by calling Christine Heslop on 0191 244 2735.



Richard Mayland
Non Executive Director

Richard is an experienced accountant who was a partner at Pricewaterhouse Coopers LLP (PwC) for 17 years before his retirement in 2003. During his time with PwC, he specialised in audit and business advisory services. His time as a partner was spent in the North East before being asked to head the financial services audit practice for the North of England. He has significant expertise in regulatory and accounting matters. He is currently Chief Executive of Norprime Ltd, a post he has held for six years. He brings more than 31 years' experience of the accountancy world to the Society's Board, which he has been a member of for more than seven years. He is a member of the Audit, Nomination and Remuneration Committees.

John Morris
Non Executive Director

John is a Fellow of the Institute of Chartered Accountants and brings to the Society a significant amount of experience of both the banking and building society sectors. He worked for several years as Director of Finance for the Retail Banking Division at HBOS. Prior to that, he held senior posts at Halifax (Halifax Building Society and then Halifax PLC) as General Manager and Leeds Permanent Building Society where he held the post of General Manager Finance. He also worked at KPMG where he started his accountancy career. He is a member of the Society's Audit Committee.

Gillian Tiplady
Business Services Director

Gillian has more than 20 years experience of the legal profession, which includes 11 years working in the building society sector. She worked at Universal Building Society for five years before the merger with the Society where she was a Director and Group Secretary. In January 2011, she became a Board member of the Society when she was appointed as Business Services Director. She is a solicitor and spent 13 years at Watson Burton where she specialised in Banking and Insolvency law.

Ron McCormick
Deputy Chairman

Ron has established a successful career in the building society sector as an experienced accountant. He is both a Fellow of the Institute of Chartered Accountants and a Fellow of the Chartered Institute of Internal Auditors. He has previously worked as Group Finance Director then Group Commercial Director at Skipton Building Society, posts which he held for a total of 14 years. In addition, he has more than seven years experience with Guardian Royal Exchange, as well as seven with KPMG, both in the UK and abroad. Following three years on the Newcastle's Board, in January 2011 he was appointed Deputy Chairman and Senior Independent Director. He is a member of the Society's Audit and Group Risk Committees. He also works as a senior adviser to businesses within a range of sectors.

David Holborn
Chairman

David has spent his entire career as a finance professional. He worked for Lloyds Banking Group for 39 years in a number of Executive roles. He was Director of the Northern Region for 10 years and was responsible for service to customers in business, commercial and personal sectors through 225 branches and 3000 staff. He was also a member of the Lloyds TSB National Retail Board. He was elected to Fellowship of the Chartered Institute Of Financial Services in 1998 for his services to Banking and is a former President of the Bournemouth and Newcastle Centres. Prior to his appointment as Chairman of the Society's Board in January 2011, he built up significant experience of the Society; he was a Non Executive Director for eight years and held the post of Senior Independent Director. David is also the Vice Chairman of Rothley Trust, a post he has held for four years, having previously been a Trustee for four years.

Jim Willens
Chief Executive

Jim's expertise in, and commitment to, the building society sector spans more than 31 years. During this time, he has held significant senior posts including Retail Operations Director and Group Services Director at Nationwide. His roles over the years have included strategic responsibility for Branches, Telephony, Internet Services, Technology, Product Development and Central Support Services, which have involved leading teams in excess of 9,000 people. His career started out in the 'field' as a branch manager and he also held a range of retail and sales management positions. Jim has a strong track record of delivery and a passion for developing the people he works with to provide excellent customer service through the mutual business model both of which are key elements to the Society's strategy.

Angela Russell
Finance Director

Angela is a highly experienced Chartered Accountant and Certified Public Accountant with 25 years' experience in finance in the UK and abroad. She has worked in a variety of positions covering finance, risk, audit, project and corporate planning roles. In particular, she has several years' experience in finance roles within the building society sector including her current role as Finance Director for the Newcastle, which she has held since 2010. She also held the post of Finance Director at the Universal Building Society. Prior to joining the building society sector Angela spent 12 years at PricewaterhouseCoopers LLP. She is also a Non Executive Director of a North East based care charity.

Phil Moorhouse
Non Executive Director

Phil is a highly experienced accountant and is a Fellow of the Chartered Association of Certified Accountants. He has held a number of senior Board positions including that of Managing Director (UK) of Northgate PLC, which he held for more than seven years. This followed six years as Finance Director. He is a Director of Molins PLC where he is Chair of Audit and a Senior Independent Director. Additionally, he sits on the Board of Cumbria NHS Partnership Trust. Phil brings his 35 years' industry expertise to the Newcastle's Board and also the Society's Group Risk Committee, of which he is a member.

Catherine Vine-Lott
Non Executive Director

Catherine has a total of 35 years' experience in the financial services sector having spent her entire working life in the industry. This includes 18 years at Barclays where her positions included Chief Executive of Barclays Stock Brokers, as well as Barclays Personal Investment Management. In addition, she has significant experience with Legal and General both at group Board level and in running the wealth management division. This brings an abundance of expertise to Newcastle's Board, which she joined in January 2010. She is also an experienced Non Executive Director and is Chairman of Openwork Holdings Limited, and Rathbone Brothers PLC. For the Society, she is Chairman of the Remuneration Committee and Audit Committee.

David Buffham
Non Executive Director

David has spent most of his career at the Bank of England. He held a wide variety of banking and other roles, most recently the post of Bank of England Agent for the North East. There he was responsible for reporting to the Bank's Monetary Policy Committee on the region's economy and explaining policy to key stakeholders in the North East. He brings this knowledge and experience to the fore as Chairman of the Group Risk Committee and also as a member of the Nomination and Remuneration Committees. He is an experienced Non Executive Director and, additionally, is a Director of Zytronic PLC, William Leech (Investment) Limited and William Leech Foundation.

The Remuneration Committee (RemCo) operates within the Terms of Reference (TOR) agreed by the Board. The TOR are reviewed annually and were last reviewed on 26th November 2012. The effectiveness of the committee is also reviewed on an annual basis and was last reviewed on 26th November 2012.

The main objectives of the committee are summarised as follows:

- To ensure compliance with the applicable principles of the FSA's Remuneration Code (the Code);
- To consider and make recommendations to the Board on executive remuneration and conditions of employment;
- Consideration of proposals from the Chief Executive for changes to the level of fees for Non Executive Directors including approving the fees for the Chairman;
- Approval of the Society's Remuneration Policy Statement including ensuring it is aligned with the Society's strategy and objectives;
- Approval of the Pillar 3 remuneration disclosures; and
- To consider and make recommendations to the Board on the general framework of staff bonus schemes ensuring these include risk management assessments.

Composition of the Committee

The committee consists solely of Non Executive Directors.

Members of RemCo are:

Catherine Vine-Lott (Chairman of the committee), David Buffham and Richard Mayland.

The attendance record of the committee is shown on page 22 of the Annual Accounts. The committee operates to a rolling agenda in order to ensure that it fully discharges its responsibilities. It normally meets at least three times each year. The committee is supported by the Chief Executive and Human Resources Executive who attend meetings in an advisory capacity only. The Chief Executive does not attend any part of the meeting where his own remuneration is being discussed.

FSA Remuneration Code

The Society has been governed by the Code since 1st January 2011. The FSA issued general guidance on proportionality which resulted in a re-classification of the Society from a 'Tier 2' to a 'Tier 3' firm. This re-classification gives the Society the ability to disapply several Remuneration Code Principles in relation to; retained shares or other instruments; deferral; and performance adjustment. The Remuneration Committee agreed to disapply these principles subject to annual review.

The remaining key requirements of the Code affecting the Society are summarised below:

- To establish a Remuneration Committee;
- To maintain a Remuneration Policy Statement; and
- To maintain a list of employees whose professional activities have a material impact on its risk profile – such staff are known as 'FSA Code Staff'.

The Remuneration Committee has reviewed and monitored all remuneration policies and processes during 2012 and consider that the Society fully complies with the requirements of the Code.

FSA Code Staff

The Committee considers that at 31 December 2012 there are 14 employees that should be categorised as Code Staff and these include:

- All Executive Directors (3)
- Executives and senior managers responsible for key control functions (5) – Group Risk Executive, Head of Business Assurance, Head of Compliance, Money Laundering Reporting Officer and Senior Underwriting Manager; and
- All other Executives (6)

A summary of the remuneration of Code Staff and the business areas in which they operate is shown on page 14. One Code Staff member left the Society in the year (the Operations Director) and details are given on page 14.

Remuneration Strategy

The Society's remuneration strategy is summarised below.

Basic Salaries

Remuneration packages are normally set at a level to attract, motivate and retain Executives, Officers and staff of the Society of the calibre necessary to oversee the operations of the Society. Basic salaries are normally set by taking into account salary levels within similar sized financial services organisations and the market as a whole, so as to attract and retain the skill levels that are appropriate.

A £500 across the board pay increase was awarded to all staff, except Executive Directors, in April 2012.

Performance Related Bonuses

In recognition of the continued progress and achievement of the Society's corporate key performance indicators (KPIs), the Remuneration Committee approved a modest payment of 2.5% under the Society's Corporate Bonus Scheme. The payment was made to all staff, with the exception of the Chief Executive and Finance Director who declined the offer of payment. The KPI's underpinning the Corporate Bonus Scheme are based on the following:

- Financial Performance of the Society including profitability, capital and liquidity;
- Focus on Members including achievement of service levels, customer satisfaction and increasing numbers of members;
- Achievement of staff engagement strategies and improved employee satisfaction;
- Success of the Solutions Business; and
- Achievement of key objectives to deliver projects and de-risking.

The corporate KPI's are reviewed annually and are fully aligned with the latest strategic plan approved by the Board.

There are no separate bonus schemes for Executive Directors.

Sales related incentive and bonus schemes continued to be operated for most sales staff in 2012. Bonus payments were set in such a way as to ensure that they promoted the financial strength of the Society, put members' interests first, did not reward failure and did not encourage the taking of risks outwith the Society's agreed risk appetite, this included the risk appetite for conduct risk. The Society has withdrawn incentive schemes for the majority of staff in January 2013 with staff now covered by the Corporate Bonus Scheme only.

The Committee has monitored the operation of bonus schemes throughout 2012 to ensure compliance with the Code and the Society's Remuneration Policy Statement.

The performance of all staff, including Code Staff, is reviewed at least annually via a formal appraisal process.

Exceptional Items

The Committee is required to report any exceptional items such as 'sign-on' or severance payments made to Code Staff. It is confirmed that there was one such payment made in respect of the role of Operations Director becoming redundant. Further details are given in the Directors' Emoluments table on page 14.

Pensions

All staff (including Executive Directors and Executives) are eligible for membership of the Newcastle Building Society Group Personal Pension Scheme, which is a defined contribution scheme. The Newcastle Building Society Pension and Assurance Scheme (a 'defined benefit' scheme) has been closed to active membership since November 2010 and has been closed to new entrants since 2000. None of the current directors participated in this scheme.

Other Benefits

All Executive Directors and Executives are eligible for a range of taxable benefits, which include a motor vehicle or cash equivalent, private health care and the ability to participate in a concessionary mortgage scheme. Cover for a lump sum on death in service is also provided. None of the Executive Directors or Executives participated in the concessionary mortgage scheme during the year.

Service Contracts

It is the Society's policy to provide six months notice of termination for all Executive Directors and all of the current Executive Directors have such notice periods. Four of the longer serving Executives have service agreements, which provide for 12 months notice of termination from the Society. The remaining Executives all have notice periods of six months. It is the policy of the Society to employ all newly appointed Executives with notice periods of six months. There are no contracts of employment for Non Executive Directors and no compensatory terms for loss of office.

Policy on Remuneration of Non Executive Directors

Non Executive Directors fees are set at a level appropriate to reflect the skills and time required to oversee the Society's operations and progress. Non Executive Directors receive a base fee and additional fees depending upon the Board Committees on which they sit or chair.

Fees are normally reviewed annually in light of those paid to directors of other similar financial services organisations. The Non Executive Directors do not determine their own fees.

The CEO recommends the fees for Non Executive Directors. The Remuneration Committee then agree any such recommendations before they are ratified by the full Board i.e. by Non Executive Directors and Executive Directors. Fees were subject to a general across the board increase of £500 in April 2012. Non Executive Directors do not participate in any bonus or pension scheme.

Remuneration Committee Report

	Salary or fees	Annual bonus	Pension contributions to defined contribution scheme (Note1)	Other benefits	Total 2012 contractual benefits	2011 total
	£000	£000	£000	£000	£000	£000
Executive Directors						
JH Willens - notes 1 and 3	260	-	-	37	297	309
AM Russell - notes 2 and 3	145	-	13	10	168	168
G Tiplady	120	3	8	11	142	139
JH Warden (resigned 30th June 2012) see note 4	70	-	6	6	82	164
	595	3	27	64	689	780
Non-Executive Directors						
DJ Buffham	40	-	-	-	40	38
FD Holborn	62	-	-	-	62	62
RD Mayland	40	-	-	-	40	43
RJ McCormick (appointed Deputy Chairman/Senior Independent Director 1 January 2011)	50	-	-	2	52	52
J Morris (appointed 31 October 2011)	35	-	-	-	35	6
PJ Moorhouse (appointed 31 October 2011)	38	-	-	-	38	6
CRR Vine-Lott	41	-	-	2	43	41
AM Cairns (resigned 30 June 2011)	-	-	-	-	-	16
NA Westwood (retired 28 November 2011)	-	-	-	-	-	30
Total for Non Executive Directors	306	-	-	4	310	294
Total for all Directors	901	3	27	68	999	1,074

Notes:

1. Mr JH Willens has elected to take his pension contribution amounting to £23,400 as a cash payment. He is liable for his own Tax and National Insurance Contributions on this payment.
2. Mrs AM Russell's salary was increased to £150,000 on 1 April 2011 however, Mrs Russell has elected not to accept the increase yet.
3. Mr JH Willens and Mrs AM Russell declined their bonus entitlement of 2.5% of basic salary due under the Society's 2012 Corporate Bonus Scheme.
4. Mr J H Warden received compensation for loss of office amounting to £82,600.

Summary of the Remuneration of FSA Code Staff

A summary of the remuneration of Code Staff during 2012 and the business areas in which they operate is shown below.

Category	Typical Functions	Number in Category	*Fixed Remuneration £000	Variable Remuneration £000	Total Remuneration 2012 £000	Total Remuneration 2011 £000
Executive Directors	CEO, Finance Director, Business Services Director, Operations Director	4	686	3	689	780
Sales & Marketing Executives	Sales & Marketing	2	210	4	214	212
Control Functions	Business Assurance, Risk Management, Compliance, Underwriting	5	333	7	340	343
Other Executives	Information Technology, Treasury, Operations, Human Resources	4	366	9	375	379
Total		15	1,595	23	1,618	1,714

*Includes benefits and pension contributions.
There was no deferred remuneration in 2012 or 2011.

Catherine Vine-Lott
Chair – Remuneration Committee
27 February 2013

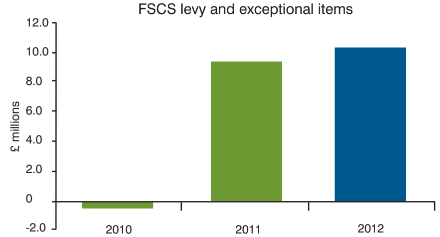
Summary Directors' Report

Overview

Despite quarterly fluctuations, the UK economy was relatively flat across 2012. The uncertain road to recovery in the UK has seen a double-dip recession in 2012 and short bursts of growth stimulated by the Jubilee and Olympic Games. The year has ended as it started with negative growth and the possibility of a third recession since 2008. Although signs of recovery, like a modest fall in unemployment, is good news for the Society's residential mortgage portfolio, gloomy metrics such as reduced output from the service and construction sectors, failure of high street retailers and global trading uncertainties, present challenges for the Society's commercial borrowers. The concerted political effort in Europe to deal with its economic difficulties has resulted in some stabilisation in UK markets but commentators agree there is still a difficult, and protracted, period of subdued economic activity ahead.

In the face of these ongoing challenges the Society has maintained its strategy of building on core strengths under a simpler building society model, leading to continued and steady progress in 2012 and pre-tax profits increasing to £1.5m from £0.1m in 2011. Operating profit before provisions, exceptional items and the FSCS levy maintained an improving trend by increasing 13% to £10.4m from £9.2m in 2011. This is particularly strong when considering 2011 accounts included income of £1.4m from the Prepaid Cards business and the 2012 equivalent includes a £1m charge for revaluation of the Group's investment properties. Adjusting for these items gives a year-on-year growth for operating profit before provisions, exceptional items and the FSCS levy of 46%. This progress is supported by the diversified income stream via Solutions business; coupled with a more efficient cost base, the Society is able to balance delivering value to both its mortgage and savings customers while maintaining profit sufficiency and an improving capital position.

Operating profit before impairments, provisions, FSCS levy and exceptional items



The Group balance sheet remains strong with high levels of premium, low risk liquid assets, overall well-performing quality residential mortgage assets, funding predominantly from retail savers, and an improving capital position. The improvement in the capital base has increased the Core Tier I ratio to 10.7% from 10.0% in 2011. Since 2007 the Group's solvency ratio, a key measure of protection afforded to members, improved by 46% to stand at 16.4% at the end of 2012.

The Society continued to de-risk its balance sheet by winding down legacy portfolios, including the commercial investment portfolio, buy-to-let mortgages to portfolio investors and also low margin loans, which include loans to housing associations. Legacy portfolios in wind-down reduced by £180m in 2012. In recognition of the underlying difficult conditions being experienced by some commercial borrowers, the Society has provided a further £10.6m against commercial loans in arrears or possession, with LPA receivers or where a trigger event has identified there may be a problem in the future servicing of the loan.

Income Statement Review

GROUP INCOME STATEMENT	2012 £m	2011 £m	2010 £m
Net interest income	19.9	17.5	17.8
Other income	28.6	27.3	18.8
Loss on revaluation of investment properties	(1.0)	(0.1)	-
Total income	**47.5**	**44.7**	**36.6**
Administrative expenses	(34.5)	(32.6)	(33.7)
Depreciation	(2.6)	(2.9)	(3.2)
Operating profit/(loss) before impairments, provisions, FSCS levy & exceptional items	**10.4**	**9.2**	**(0.3)**
Gain on disposal	0.8	3.9	-
Impairment losses - loans	(8.3)	(12.3)	(1.8)
Impairment losses - banks and debt securities	0.7	0.7	2.4
FSCS levy	(2.1)	(1.4)	-
Repositioning Programme	-	-	(4.0)
Provisions for liabilities and charges	-	-	(1.0)
Profit/(loss) for the year before taxation	**1.5**	**0.1**	**(4.7)**

Net Interest Income

Net interest margin has increased from 0.40% in 2011 to 0.47% in 2012 due mainly to increased mortgage lending and improved returns on liquid assets. Margin remains under pressure from relatively high retail funding costs, although latterly this has seen some signs of abating as the market reacts to the Funding for Lending Scheme.

Other Income and Charges

Other income across the Group rose by £0.4m in 2012 to £27.6m from £27.2m in 2011. Although appearing a modest improvement the figure in 2011 includes income of £1.4m from the Prepaid Cards business sold in December 2011 and in 2012 a £1m charge for investment property fair value write down. Adjusting for these items gives an underlying growth in other income of 11%. Income from the Solutions business remained strong at £16.2m due to 22% growth in balances under management including the launch of a new savings contract in May 2012.

Investment Property Revaluation

The subsidiary company, Kings Manor Property Limited (KMPL), holds the Group's residential investment property portfolio. The Group follows the fair value model of asset valuation for investment properties under IAS 40 including assets held by KMPL. As such the portfolio is revalued at the balance sheet date using active market price comparisons. In 2012 the fair value revaluations have seen the Group write down the portfolio by a total of £1m, further details are given in Note 18 to the Annual Accounts.

The KMPL investment property business does not fall into the Group's simplified core model and the decision to dispose of the portfolio of assets on a piecemeal basis in the 12 months from the 2012 balance sheet date has resulted in the assets being classified as Held for Sale in accordance with IFRS 5.

Administrative Expenses and Depreciation

Administrative expenses grew by £1.9m in the year to £34.5m (2011: £32.6m) driven in the main by the increased staffing requirement to support activity and income growth in the Group and particularly the Solutions business and also increased regulatory costs. The Society also incurred additional staff costs as a result of the annual pay review and paid a corporate bonus equivalent to 2.5% of salaries at the end of 2012.

Regulatory fees and costs associated with regulatory projects, together with the cost of administering an ongoing stream of MPPI claims, added £0.6m to administrative expenses in 2012.

The increase in administrative expenses mitigated by a £0.3m fall in depreciation charge contributed 4 basis points (bp) to the total 8bp increase in the ratio of management expenses to mean total assets; 0.88% in 2012 compared to 0.80% in 2011. A fall in balance sheet size across 2012, with the resulting fall in mean total assets of £190m, contributed 4bp to the ratio's increase.

In contrast the ratio of management expenses to income decreased by 3% to 77% (excluding the fair value adjustment for investment properties) from 80% in 2011. This efficiency ratio better reflects the Society's investment in the business to improve income streams as the Solutions business has minimal assets to support it.

Building on the success of the repositioning programme in 2010, the Society continues to review its cost base with a number of initiatives identified which will reduce cost going forward.

Gain on Disposal of Prepaid Cards Division

The Society legally completed on the sale of its Prepaid Cards Division to Wirecard AG on 21st December 2011. Cash received on completion amounted to £7.5m and a further £2.5m may be payable as deferred consideration which is based on trading performance in 2012 and 2013. The Society recognised £0.5m of the earn-out in 2011 with a further £0.8m in 2012, any remaining income will be recognised in 2013 when receipt is more certain. Further details are given in Note 10 to the Annual Accounts.

Impairment Losses

Loans and Advances to Customers

The impairment charge for loans and advances to customers has fallen to £8.3m in 2012 from £12.3m in 2011, excluding provisons for suspended interest, however it is still high compared to historic levels prior to the credit crunch. The continued high level of provisioning reflects the difficult economic backdrop which has had a greater impact on commercial investment loans as property values have fallen, there has been greater incidence of tenant failure (particularly on the high street) and when a tenant fails it takes much longer to find and replace tenants. A summary of loan impairment charges, which demonstrates the significance of commercial provisions to the overall charge, is included in Note 14 on page 44 of the Annual Accounts.

Commercial

The total commercial impairment charge for the year including interest added to provisions amounted to £10.6m for 2012 (2011: £15m). The Society has been successful in winding down and de-risking the commercial portfolio, with a 44% reduction over the last three years, but as trading difficulties persist in the commercial property sector and valuations fall on the back of low demand, so the requirement to provide for impairments that are considered "incurred" continues. Impairment calculations are carried out by considering future discounted cashflows as per rules laid out in international accounting standard, IAS39. In considering future cashflows the Society estimates the future valuation of the security less anticipated disposal costs, any interest rate hedging unwinding required as well as interest rates, operational expenses and charges. The Society considers several factors when deciding if a commercial exposure is impaired including any missed payments, tenant failure, tenant voids and likelihood of re-letting and any other potential loan servicing issues arising from assessments or professional advice particularly where this provides evidence that a loan is or is unlikely to be fully serviced.

In addition a full review has been carried out of loans where forbearance has been granted during 2012 including; capitalising arrears, extending the loan term, or where there has been a restructuring of the original loan terms and conditions. The Society has a provisioning committee, chaired by the Society's Group Risk Executive, with terms of reference for ensuring full and consistent application of the Society's impairment methodology to commercial loans, with the best internal and external information available.

Residential

A charge of £0.9m relates to residential lending; the majority being against historic lending to BTL portfolio investors which is another loan portfolio in wind down (although the Society hopes to return to the BTL market for individuals requiring smaller loan balances in 2013). Despite the squeeze on household budgets, credit losses on the Society's residential lending assets continue to be insignificant compared to the size of the portfolio. This is a reflection of the excellent quality of 87% of the Group's mortgage assets which continue to perform below the industry average. Impairment of the residential book is considered collectively for loans with 3 months or more arrears based on an estimation of loss given default and probability of default based on individual loan circumstances. All properties entering possession are provided specifically based on loan to value and anticipated disposal costs. A small collective provision

arises from the Society's roll-rate to possession modelling for loans with low arrears; previous arrears or where forbearance has previously been granted.

Other

The Society's book of other loans is secured on endowment policies and its associated risk has significantly decreased again in 2012, a £0.1m credit has been taken through impairment charges to reflect this. A provision release of £0.7m from other impairment provisions in relation to PPC debtors has been credited to the provisions charge.

Loans and Advances to Banks and Debt Securities

In 2008 the Society made impairment provisions totalling £32.6m against exposures to Icelandic banks. In respect of Kaupthing Singer and Friedlander and Heritable investments the Society is provided with information from administrators about the level of recoveries the creditors could expect to recover from the Icelandic banks. For Landsbanki and Glitnir investments the Society uses market data for recoveries, provided by specialist Icelandic debt traders. To date the Society has received £18.3m on its total Icelandic investments of £44.0m and expects to recover a further £5.4m. The provision release during the year of £0.7m reflects an improving position on recoveries.

FSCS Levy

The Society's provision for its contributions to the Financial Services Compensation Scheme (FSCS) has been increased to £2.1m in 2012 (2011: £1.4m) The provision covers estimated liabilities under the rules of the scheme in compliance with applicable International Financial Reporting Standards and guidance, IAS37 and IFRIC6. The 50% increase in the charge reflects both an agreement between the FSCS and HM Treasury to increase the interest rate on the original loan to the scheme, and also the requirement for participants to contribute to the capital shortfalls on the outstanding debts. Further details of the provision are given in Note 26 to the Annual Accounts.

Segment Reporting

Segmental information is prepared under IFRS 8 with activities split into "Member" and "Solutions" businesses. Details are given in Note 9 to the Annual Accounts. The Member business provides mortgage, savings, investment and insurance products to members and customers. The Solutions business provides business-to-business services through people, processes and technology. The Board assesses performance based on profit before tax after the allocation of all central costs. The presentation in note 9 highlights the pronounced impact commercial provisions and FSCS Levy have on the overall loss before tax of the Member business. The Solutions business operating profit before provisions, impairments and exceptional items in 2011 includes £1.4m gained from the period the prepaid cards division remained under the Society's control. Adjusting for this, Solutions operating profit before provisions, impairments and exceptional items increased by £1.9m or 40%. Details of the exceptional item relating to the sale and earn out of the Prepaid cards business is given in Note 10 to the Annual Accounts.

Taxation

The Group shows an effective corporation tax rate of 100% in 2012. The tax charge relates to the reduction in the deferred tax asset carried on the balance sheet. This reduction arises as taxable losses from previous years are used to extinguish the current year corporation tax charge and, in addition, the deferred tax asset has to be written down where there is a reduction in the enacted corporation tax rate, reflecting that taxable losses have a lower recovery value in the future. The Society and Group have not paid any corporation tax since 2007 due to the taxable losses available.

Balance Sheet Review

Liquid Assets

The Society has continued to maintain a high level of quality liquid assets throughout 2012, a higher liquidity percentage of 30.2% is reported at 31 December 2012 (2011: 29.2%), partly driven by the cash generated by the run off of legacy mortgage portfolios. This liquidity will fund increased lending activity in 2013. The Society pursues a prudent and careful approach to its liquid asset investments with robust and thorough credit risk assessment. Over 76% (2011: 70%) of the liquid assets held are with AAA-rated counterparties. The Society has no liquid instruments with counterparties based in Greece, Portugal, Italy, France, Belgium or Spain. All of the Society's liquid assets are denominated in UK sterling; the Society does not invest in instruments denominated in other currencies.

Loans and Advances to Customers

Loans and advances to customers fell by £240m in 2012 as shown in the table below, with two thirds attributable to unwind of portfolios where the Society had ceased new lending and exited the market, this includes £68m of housing association loans, £75m of commercial investment loans and £28m of non-standard residential lending including BTL lending to portfolio investors.

	2012		2011	
	£m	LTV%	£m	LTV%
Residential	1,628	55.3	1,715	55.8
Housing Associations	781	72.2	849	74.8
Commercial Investment	317	97.5	392	93.9
Other	30	68.3	38	66.7
	2,756		2,994	
Provisions	(28)		(17)	
	2,728	**65.1**	**2,977**	**66.3**

The Group's lending is all secured with a first legal charge registered against the collateral property. Residential loans are shown at indexed loan to value using the quarterly regional Halifax House Price Index, the remaining loans are shown without indexing although over 90% of the commercial loans have been revalued in 2011/12 which is reflected in the high LTV of this portfolio. Further information on security loan to value is provided in Note 33 to the Annual Accounts.

Since the Society decided to reduce its exposure to legacy portfolios from the beginning of 2010, over £430m has redeemed off the balance sheet, the majority being commercial investment where £241m of balances have redeemed. The wind down of the legacy portfolios and the resulting increased liquidity has allowed the Society to return to higher volumes of residential lending to owner occupiers, with 2012 completions double those seen in 2011. The Society was pleased to be able to utilise freed-up capital to support first time buyers (FTB) in its lending for the year with 210% higher FTB completions compared to the previous 12 months. The Society will continue to grow its residential lending volumes as legacy portfolios unwind but only where the balance between credit risk and net return are within risk appetite.

The remaining reduction in the residential book was due to capital repayments as the Society's gross lending exceeded redemptions.

Overall Arrears

The Society measures mortgage arrears of 3 months or more by both number of loans and balance as a percentage of total number of loans and total balance, respectively. The levels of arrears experienced continue to be below Council of Mortgage Lenders reported averages and more than satisfactory given the prevailing economic conditions.

While the overall number of loans in 3 months or more arrears has remained relatively static at 0.76% there is a 22bp increase in 3 month+ arrears by balance reflecting the adverse impact that problem commercial loans can have on the Society's overall reported arrears performance.

Residential Arrears, Forbearance and Possessions

Residential arrears have risen by 2bp by number and 4bp by balance due mainly to the reduction in the residential portfolio; both the number of loans in arrears and the balances in arrears have fallen from the previous year. The year end reported arrears figure by balance was affected by one mortgage balance of £1.7m where the arrears were paid off in full in January 2013 and the 3 month+ arrears figure by balance fell back to 0.74% from 0.82%, which is lower than at the end of 2011.

The Society's policy on forbearance measures is fully compliant with the detailed requirements of the FSA's Mortgage Code of Business Sourcebook (MCOB). The term forbearance is defined as the granting of a concession which alters the contractual terms of a loan. The Society will work closely with any homeowner experiencing difficulties, offering help and advice on all aspects of the situation. In an approach which seeks to treat its customers fairly the Society tailors its forbearance measures to reflect the borrower's individual circumstances, the Society can offer measures including changing the term of the loan, a temporary change to interest only, a reduced subscription, a payment holiday or deferring interest payments. The Society will also consider whether the borrower qualifies for Government initiatives covering Homeowner Mortgage Support Scheme (HMSS) and Homeowner Mortgage Rescue Scheme (HMRS). The Society enters into forbearance agreements on the understanding that concessions are granted in the best interests of the borrower in order to return the loan to performing status over time. Forbearance data is monitored closely on a monthly basis by the Society's Residential Credit Committee with the levels of concessions granted not considered to be material for the size of the overall book. The Society continued to experience a low level of possessions on residential loans in 2012 with only 5 possession properties at the end of 2012 in relation to owner occupied loans, representing a reduction of 3 from the end of 2011. The Society took in only 9 properties on owner occupied loans in 2012 with the majority of these relating to the borrower surrendering the property or due to action by second charge lenders.

Possessions on BTL properties also reduced from 20 to 17 although this was due more to the Society's preferred route now being to adopt a Law of Property Act 1925 (LPA) receiver to the property in order to take action on a more timely basis. The number of BTL loans subject to LPA receiver appointment increased by 5 from 2 at the end of 2011 to 7 at the end of 2012. The Society takes a more proactive stance on arrears on BTL properties reflecting that the borrower does not occupy the property, has taken out the loan to enable property investment, and should be able to repay the Society's mortgage via sale if arrears problems arise.

Commercial Investment Arrears, Forbearance and Possessions

At 31 December 2012 the Society had three commercial investment loans in arrears of 3 months or more with balances of £10.1m, this compared to two at the end of 2011 with balances of £5.4m. The increase in the year related to one exposure where the loan could not be serviced due to a tenant void period. Total specific provisions against these three loans amounted to £2.4m (2011: £1.8m). The Society had no loans in possession at the end of 2012 (2011: one loan with a balance of £0.4m and provision of £0.2m).

At the end of 2012 the Society had 4 exposures subject to LPA receivership with total balances of £22.4m (2011: 2 exposures with balances of £3.1m). Specific provisions against these exposures at 31 December 2012 amounted to £8.6m (2011: £1.3m). The Society generally goes down the route of LPA appointment where the relationship has broken down with the borrower and the Society needs to ensure the security property is properly managed in order to secure the best outcome for the Society in terms of eventual repayment of the loan.

The Society grants forbearance to commercial borrowers in the form of extending the loan term on maturity, capitalising arrears as part of a wider exercise to get a borrower back on track with a revised debt repayment plan, and adjusting the interest rate to aid serviceability particularly where a fixed rate has expired. Generally the Society expects commercial investment loans to be repaid on maturity given the stated strategy of winding down the portfolio

but will grant forbearance when this is also in the best interests of the Society e.g. this provides the borrower with a little more time to sell the security property following a tenant renewal. In Note 33 on page 66 of the Annual Accounts details are given of forbearance granted to commercial borrowers in 2012; in summary the Society granted loan extensions on nine loans (on original commercial terms or better), two of which are considered impaired, and capitalised arrears on two loans, both of which are considered impaired.

Funding

Retail savings balances reduced by 8% or £316.0m in 2012 as the Society's balance sheet reduced due to the unwind of legacy portfolios. Wholesale exposures also decreased across the year, by £34.8m or 12%. This relevant movement in funding mix resulted in the percentage of wholesale balances to total share and deposit liabilities falling from 6.95% in 2011 to 6.66% in 2012. The Society's mortgage portfolio remains fully funded by retail savings.

Capital

The table below shows the composition of the Group's capital and capital ratios at the end of the year.

CAPITAL	2012 £m	2011 £m
Tier 1 Capital		
General Reserve	165.6	170.8
Permanent interest bearing shares	29.7	29.6
	195.3	200.4
Tier 2 Capital		
Subordinated Debt	53.0	56.0
Collective impairment allowance	6.2	1.6
	59.2	57.6
Total Capital	**254.5**	258.0
Risk Weighted Assets		
Liquid Assets	141.2	127.4
Loans and Advances to customers	1,271.4	1,420.4
Other Assets	58.9	64.9
Off Balance Sheet	16.5	40.1
Operational Risk	66.5	62.5
	1,554.5	1,715.3
Capital Ratios	%	%
Core Tier 1 ratio	10.7	10.0
Tier 1 ratio	12.6	11.7
Solvency ratio	16.4	15.0

All capital ratios show improvement in 2012 and follow a trend of a strengthening capital base, with the total solvency ratio improving to 16.4% (2011:15.0%) and Core Tier I improving to 10.7% from 10.0%.

The Group complied with Individual Capital Guidance as notified by the FSA throughout 2012.

Basel III

The Basel Committee on Banking Supervision issued its revised Basel III text in December 2010 reforming the quantity and quality of regulatory capital in order to improve the resilience of the banking sector to shocks arising from financial and/or economic stress. The Basel III text will be implemented in Europe via the Capital Resources Requirement and Capital Requirements Directive. The latter will then be implemented in the UK by the FSA via the issue of policy statements for inclusion in the FSA Handbook.

The impact of Basel III on the Society is that subordinated debt will be phased out from regulatory capital in the longer term and that PIBS will eventually move from tier 1 to tier 2 capital. As the Society's subordinated debt is all due for repayment by 2019 the impact in the short term may be to accelerate the unwind of the subordinated debt from the Society's capital resources, but in the long term there is no impact. The impact of Basel III on capital will be phased in accordance with transitional arrangements and changes are reflected in the Society's medium and long term capital planning. The current improving capital ratios mean that the Society is well positioned to maintain its overall capital strength.

Outlook

There is a distinct possibility the UK will enter a third recession in 2013 given the negative growth figures issued by the ONS for Quarter 4 2012. The road to recovery is likely to be bumpy and long, economic data continues to vary and signals for growth are mixed. Political leaders are likely to continue to work towards a sustained recovery across the globe, central banks trying to stimulate state economies wherever possible. A new Governor of the Bank of England in 2013 could see a policy shift away from concentration on inflation control and more towards growth and stimulus objectives. The Board expects the low interest rate environment to continue throughout 2013 and beyond. While this will maintain pressure on margins, household budgets should continue to benefit from a lower mortgage interest payment burden. Signs that the UK retail savings market is becoming less competitive are likely to see rates falling for a time in 2013 as financial institutions draw down from the Funding for Lending Scheme rather than fund via retail savings.

The Society will maintain its cautious approach to lending in terms of risk and return, but with the expectation that gross residential lending will again double in 2013. The commercial wind-down strategy and improving the overall risk profile of the Society's mortgage portfolio will continue to be pursued. The Board is confident that given the progress already made that an improving financial performance should be achieved over 2013 and into the future.

Angela Russell
Finance Director
27 February 2013

For the year ended 31 December 2012

This Summary Financial Statement is a summary of information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors, free of charge on demand, at every branch of the Newcastle Building Society from 21 March 2013.

Approved by the Board of Directors on 27 February 2013:
David Holborn, Chairman
Catherine Vine-Lott, Chairman of the Audit Committee
Jim Willens, Chief Executive

Group results for the year

	2012 £m	2011 £m
Net interest receivable	19.9	17.5
Other income and charges	27.9	26.7
Gains less losses from financial instruments and hedge ineffectiveness	0.7	0.6
Losses recognised on revaluation of investment properties	(1.0)	(0.1)
Administrative expenses and depreciation	(37.1)	(35.5)
Operating profit before impairments, provisions, FSCS levy and exceptional items	10.4	9.2
Impairment losses and other costs	(7.6)	(11.6)
FSCS levy	(2.1)	(1.4)
Gain on disposal of Prepaid Cards Business	0.8	3.9
Profit for the year before taxation	1.5	0.1
Taxation expense	(1.5)	(0.8)
Result after taxation for the financial year	-	(0.7)

For the year ended 31 December 2012

Group financial position at the end of the year

Assets	2012 £m	2011 £m
Liquid assets	1,114.1	1,180.9
Mortgages	2,697.9	2,938.6
Fair value adjustments for hedged risk	40.0	57.9
Other loans	29.7	38.0
Derivative financial instruments	38.1	44.3
Fixed and other assets	120.3	158.8
Total assets	4,040.1	4,418.5

Liabilities		
Shares	3,445.4	3,761.4
Fair value adjustments for hedged risk	17.5	28.7
Borrowings	246.0	280.8
Derivative financial instruments	40.0	57.4
Other liabilities	30.5	29.8
Subordinated liabilities	58.9	58.7
Subscribed capital	29.7	29.6
Reserves	172.1	172.1
Total liabilities	4,040.1	4,418.5

Summary of key financial ratios

	2012 %	2011 %
Gross capital as a percentage of shares and borrowings	7.05	6.44
Liquid assets as a percentage of shares and borrowings	30.18	29.18
Result / (loss) for the year as a percentage of mean total assets	-	(0.02)
Management expenses for the year as a percentage of mean total assets	0.88	0.80

For the year ended 31 December 2012

Notes

Gross capital as a percentage of shares and borrowings

Gross capital represents reserves, plus subordinated liabilities and subscribed capital. The purpose of capital is to provide a buffer against any losses arising from a society's activities, thereby protecting investors' funds.

The gross capital ratio measures the extent to which a society's activities are funded by capital, compared to shares and borrowings. The higher this ratio is, the greater the protection for investors.

Liquid assets as a percentage of shares and borrowings

Liquid assets are assets held by a society, which are in the form of cash or assets which are readily convertible into cash. The ratio is maintained at a level which the Directors consider appropriate for the activities of the Society.

Profit for the year as a percentage of mean total assets

A building society needs to make a reasonable level of profit each year in order to maintain and strengthen its gross capital ratio. It is similar to a company's return on assets.

The Newcastle Building Society operates a policy of 'profit sufficiency' and one of the most appropriate measures of profitability is to express profit as a percentage of mean total assets.

Management expenses for the year as a percentage of mean total assets

Management expenses are the costs of running a society and comprise administrative expenses, depreciation and amortisation. The lower this ratio is, the greater a society's efficiency.

Annual re-election of Directors

In discharging its responsibilities to be accountable to the Society's members for the operation of the Society, the Board regards good corporate governance as extremely important. The UK Corporate Governance Code (the Code), issued by the Financial Reporting Council in June 2010 is addressed to publicly quoted companies, however, the Society's Board considers it to be best practice to have regard to the Code when establishing and reviewing corporate governance arrangements.

One aspect of the Code provides that all directors of FTSE 350 companies should be subject to annual election by shareholders, and the Building Societies Association considers that this requirement would apply to the twelve largest building societies. Therefore, in line with good corporate governance, and following a recommendation to the Board made by NomCo, all Directors will now offer themselves up for annual election/re-election at the Society's Annual General Meeting (AGM). At this year's AGM, all of the Society's Directors are standing for re-election, with the exception of Mr FD Holborn who is standing down as a Director and Chairman at the end of the AGM. Details relating to the Directors can be found on pages 10 and 11.

We have examined the Summary Directors' Report and the financial information set out on pages 20 to 22.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Summary Financial Statement in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Directors' Report and the financial information set out on pages 20 to 22 with the full Annual Report and Accounts, Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Directors' Report and the financial information set out on pages 20 to 22. The other information comprises only the Chief Executive's Review and the Remuneration Committee Report.

This statement, including the opinion, has been prepared for, and only for, the Society's Members as a body and Depositors as a body in accordance with Section 76 of the Building Societies Act 1986, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility to any other person to whom this statement is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

We conducted our work in accordance with Bulletin 2008/3 'The auditor's statement on the summary financial statement in the United Kingdom' issued by the Auditing Practices Board. Our report on the Group and Society's full Annual Report and Accounts describes the basis of our audit opinion on those Annual Report and Accounts.

Opinion

In our opinion the Summary Directors' Report and the financial information set out on pages 20 to 22 is consistent with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of Newcastle Building Society for the year ended 31st December 2012 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
27 February 2013